



COMPANY UPDATE / ESTIMATE CHANGE

Key Metrics

YORW - NASDAQ - as of 8/3/17	\$34.60
Price Target	\$27.00
52-Week Range	\$27.68 - \$39.86
Shares Outstanding (mm)	12.8
Market Cap. (\$mm)	\$444.4
1-Mo. Average Daily Volume	34,644
Institutional Ownership	35.3%
LT Debt/Total Capital	Q2'17 43.3%
ROE	TTM 18.7%
Book Value / Share	Q2'17 \$8.94
Price / Book Value	3.9x
Dividend Yield	1.9%
EBITDA Margin	FY'16 61.6%

EPS FY 12/31

		Prior	Current	Prior	Current
	2016A	2017E	2017E	2018E	2018E
1Q	\$0.19	--	\$0.20	A --	--
2Q	\$0.22	--	\$0.23	A --	--
3Q	\$0.28	\$0.28	\$0.28	--	--
4Q	\$0.23	\$0.25	\$0.25	--	--
Year	\$0.92	\$0.96	\$0.96	\$0.99	\$0.99
P/E	37.6x		36.0x		34.9x

Total Operating Revenue (\$MM)

		Prior	Current	Prior	Current
	2016A	2017E	2017E	2018E	2018E
1Q	\$11.3	--	\$11.3	A --	--
2Q	\$11.8	--	\$12.3	A --	--
3Q	\$12.6	\$13.0	\$13.0	--	--
4Q	\$11.9	\$12.3	\$12.3	--	--
Year	\$47.6	\$48.8	\$48.9	\$50.9	\$51.0

Company Description: *The York Water Company impounds, purifies, and distributes water within its franchise in York and Adams Counties in Pennsylvania. The company has its own distribution system that supplies water to several adjacent areas. York Water serves a population of approximately 196,000 and its average daily consumption is approximately 18.8 million gallons.*

Water Utilities

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The York Water Company

YORW – NASDAQ – Underperform-3

Q2'17 Results for YORW; Reiterating Underperform.

Investment Highlights

- York reported Q2'17 EPS of \$0.23, up a penny versus the prior year due to rounding; we were looking for EPS to be flat yr/yr, as the only published estimate. A lower effective tax rate and higher AFUDC (interest offset) offset a 2.9% decline in operating income.
- Revenue grew 3.7% in Q2, fractionally ahead of our target for +3.0% on impact of acquisitions and incremental DSIC surcharges.
- York's Q2'17 effective tax rate was 31.8%, down from 34.2% in the year-ago period and comfortably below our estimate of 34.3%. Higher qualifying Cap Ex under IRS Tangible Property Rules drove the decline; leaving our Qs3-4 assumptions, our FY effective rate for 2017 falls ~60bps to 27.9%.
- Q2 Cap Ex at \$7.4MM was more than double YORW's spend in the year-ago period; YTD Cap Ex of \$13.9MM is higher by ~180%. In our view, this rising spend along with York's pristine balance sheet and tax/regulatory constructs in PA bodes well for revenue growth over the next couple of years.
- Having said that, combined O&M plus G&A were 38.8% of revenue in Q2'17, higher by 240bps yr/yr. Already a very efficient operation, we worry about revenue growth translating to EPS growth, particularly as York continues to acquire.
- Our 2017/2018 forecasts are little changed, outside of reflecting actual results from Q2, with the recently reported quarter more/less in line with our forecast.
- We are reiterating our Underperform rating and our \$27 price target. With rising capital spend, core operations at York are modestly attractive, but we see negative risk/reward based on valuation. Our target values YORW in line with its 5-yr average TTM P/E of ~27, based on our 2018 estimates.

Note Important Disclosures on Pages 5-6
Note Analyst Certification on Page 5

SUITABILITY

We assign YORW a suitability rating of ‘3.’ A complete description of our suitability scale is on page 5. York’s small-cap status, relatively low trading volume and a lack of regional diversification keep YORW below our ‘2’ suitability rating. A long history of capital return, industry-appropriate leverage, and tenured monopoly franchises keep York well above our more aggressive ‘4’ rating.

CONSIDERATIONS AND RISKS

We view all companies in the Water Utilities industry as being subject to significant regulatory and political risk. Utility operations are heavily regulated; negative rate-making climates and/or new environmental restrictions may affect YORW’s ability to earn a sufficient return on invested capital. Weather, natural disaster, and availability of water supplies could negatively impact sources of water, demand for water services and/or the utility’s ability to supply water to customers. Risks associated with the collection, treatment, and disposal of wastewater could also impose significant costs.

Significant capital expenditures are required to maintain infrastructure and expand rate base. Should the company suffer from the lack of ability to secure appropriate funding to make investments, or if delays are incurred in completing projects, operating results could be negatively affected. Contamination of water could result in service interruptions or cause enforcement actions. Water assets can be subject to condemnation through eminent domain.

York Water operates with limited geographic diversity. As such, the company’s operating results may be more sensitive to negative events that directly affect its regions of operations. Additionally, the company is subject to all other risks that result from operating as a publicly traded company.

Our Suitability rating is 3 on a 1-to-4 scale (1 = most conservative, 4 = most aggressive).

Additional information is available upon request.

The York Water Company

Summary Balance Sheet	FY'14	FY'15	Q1'16	Q2'16	Q3'16	Q4'16	FY'16	Q1'17	Q2'17	Q3'17E	Q4'17E	FY'17E	FY'18E
Cash	\$1,488	\$2,879	\$3,217	\$5,009	\$6,199	\$4,209	\$4,209	\$440	\$2	\$50	\$570	\$570	\$2,200
A/R	3,991	3,535	3,583	3,814	4,404	4,296	4,296	3,998	4,234	4,490	4,380	4,380	4,470
Unbilled Rev	2,377	2,614	2,510	2,444	2,369	2,429	2,429	2,202	2,492	2,420	2,480	2,480	2,530
Other CAs	3,377	2,764	2,249	1,746	1,869	1,686	1,686	2,364	1,672	2,288	2,271	2,271	2,363
Total Current Assets	11,233	11,792	11,559	13,013	14,841	12,620	12,620	9,004	8,400	9,248	9,701	9,701	11,563
Net PP&E	253,194	261,420	261,881	263,682	265,411	270,907	270,907	275,369	283,338	287,510	290,750	290,750	297,550
Deferred Reg Assets	32,614	32,996	33,278	33,368	34,015	33,027	33,027	33,294	33,440	33,770	34,110	34,110	35,490
Other	7,298	7,283	4,500	3,976	3,878	3,940	3,940	4,012	4,078	3,960	4,020	4,020	4,100
Total Assets	\$304,339	\$313,491	\$311,218	\$314,039	\$318,145	\$320,494	\$320,494	\$321,679	\$329,256	\$334,488	\$338,581	\$338,581	\$348,703
CP of LTD	43	44	44	44	54	44	44	44	44	40	40	40	40
ST Borrowings	0	0					0			5,000	5,000	5,000	4,500
A/P	1,589	1,772	1,947	1,609	1,647	3,669	3,669	3,373	5,148	1,680	3,740	3,740	3,810
Other CLs	4,298	4,381	4,552	4,361	4,503	4,471	4,471	4,701	4,607	5,304	4,887	4,887	5,085
Total Current Liabilities	5,930	6,197	6,543	6,014	6,204	8,184	8,184	8,118	9,799	12,024	13,667	13,667	13,435
LTD	84,842	87,261	84,543	84,569	84,584	84,609	84,609	84,634	88,166	87,440	87,440	87,440	87,440
Deferred Income Tax	46,024	50,495	50,783	51,357	52,815	54,169	54,169	55,516	56,750	57,820	58,590	58,590	62,650
CIAC	31,052	34,930	35,107	35,104	35,245	36,654	36,654	36,565	7,483	28,080	31,196	31,196	32,460
Other	31,928	25,538	23,948	25,018	25,678	22,817	22,817	22,565	51,808	52,330	52,850	52,850	54,990
Shareholders' Equity	104,563	109,070	110,294	111,977	113,619	114,061	114,061	114,281	115,250	96,794	94,838	94,838	97,728
Total Liab & SE	\$304,339	\$313,491	\$311,218	\$314,039	\$318,145	\$320,494	\$320,494	\$321,679	\$329,256	\$334,488	\$338,581	\$338,581	\$348,703
Summary Cash Flow	FY'14	FY'15	Q1'16	Q2'16	Q3'16	Q4'16	FY'16	Q1'17	Q2'17	Q3'17E	Q4'17E	FY'17E	FY'18E
Net Income	\$11,484	\$12,489	\$2,486	\$2,847	\$3,571	\$2,942	\$11,846	\$2,581	\$2,935	\$3,618	\$3,228	\$12,380	\$12,720
D&A	5,932	6,151	1,627	1,555	1,614	1,626	6,422	1,681	1,686	1,730	1,760	6,860	7,200
Deferred Tax	4,753	2,270	244	363	443	596	1,646	667	714	1,070	770	3,220	4,060
(Inc) / Dec in Wrk Cap	(3,991)	1,098	917	(191)	(458)	2,221	2,489	(219)	1,847	(3,570)	1,710	(230)	40
Operating CF	18,178	22,008	5,274	4,574	5,170	7,385	22,403	4,710	7,182	2,848	7,468	22,230	24,020
Cap Ex	(14,139)	(13,844)	(1,921)	(3,088)	(3,293)	(4,856)	(13,158)	(6,413)	(7,454)	(5,900)	(5,000)	(24,767)	(14,000)
Acquisitions	(369)	(352)	(5)	(24)	-	(21)	(50)	(511)	39	(75)	(75)	(622)	(300)
Dividends	(7,402)	(7,682)	(1,980)	(1,987)	(1,993)	(1,996)	(7,956)	(2,056)	(2,061)	(2,060)	(2,110)	(8,290)	(8,480)
Free Cash Flow	(3,732)	130	1,368	(525)	(116)	512	1,239	(4,270)	(2,294)	(5,187)	283	(11,449)	1,240
Cust Adv & CIAC	638	1,117	198	694	828	49	1,769	101	672	250	250	1,273	940
LTD Proceeds	14,880	14,301	-	-	-	-	-	-	7,911	0	-	7,911	0
LTD (Repay)	(14,923)	(11,886)	(11)	(11)	(11)	(20)	(53)	(11)	(4,415)	(10)	(10)	(4,446)	(40)
Net LOC Borrow / (Repay)	-	-	-	-	-	-	-	-	-	5,000	-	5,000	(500)
Stock Issued, Net	(5,692)	(2,546)	733	835	71	(465)	1,174	(303)	1,321	0	0	1,018	-
Net Cash Flow	(8,829)	1,116	2,288	993	772	76	4,129	(4,483)	3,195	53	523	(693)	1,640
EBITDA	28,009	28,812	6,841	7,250	8,028	7,191	29,310	6,538	7,215	8,270	7,500	29,540	30,890
EBITDA Margin	61.0%	61.2%	60.7%	61.3%	63.7%	60.5%	61.6%	57.9%	58.9%	63.6%	60.8%	60.4%	60.6%
EV / TTM EBITDA	13.5x	14.0x	16.3x	16.9x	15.8x	19.5x	19.5x	18.4x	18.5x	18.3x	18.0x	18.0x	17.2x
Selected Financial Statistics	FY'14	FY'15	Q1'16	Q2'16	Q3'16	Q4'16	FY'16	Q1'17	Q2'17	Q3'17E	Q4'17E	FY'17E	FY'18E
Book Value	\$8.23	\$8.51	\$8.58	\$8.71	\$8.83	\$8.87	\$8.87	\$8.89	\$8.94	\$7.51	\$7.36	\$7.36	\$7.58
Price / Book	2.8x	2.9x	3.6x	3.7x	3.4x	4.3x	4.3x	3.9x	3.9x	4.6x	4.7x	4.7x	4.6x
LTD / Total Cap	44.8%	44.4%	43.4%	43.0%	42.7%	42.6%	42.6%	42.5%	43.3%	47.5%	48.0%	48.0%	47.2%
ROE (TTM)	11.1%	11.7%	11.5%	11.3%	11.2%	10.6%	10.6%	10.6%	18.7%	10.9%	11.5%	11.5%	13.3%
ROA (TTM)	4.0%	4.1%	4.0%	4.0%	4.0%	3.8%	3.8%	3.8%	6.6%	3.7%	3.8%	3.8%	3.7%

Source: Company reports and Hilliard Lyons estimates

Analyst Certification

I, Spencer E. Joyce, CFA, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject company(ies) and its (their) securities. I also certify that I have not been, am not, and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendation(s) in this report.

Important Disclosures

Hilliard Lyons' analysts receive bonus compensation based on Hilliard Lyons' profitability. They do not receive direct payments from investment banking activity.

Suitability Ratings

- 1** - A large cap, core holding with a solid history
- 2** - A historically secure company which could be cyclical, has a shorter history than a "1" or is subject to event driven setbacks
- 3** - An above average risk/reward ratio could be due to small size, lack of product diversity, sporadic earnings or high leverage
- 4** - Speculative, due to small size, inconsistent profitability, erratic revenues, volatility, low trading volume or a narrow customer or product base

Investment Ratings

Buy - We believe the stock has significant total return potential in the coming 12 months.

Long-term Buy - We believe the stock is an above average holding in its sector, and expect solid returns to be realized over a longer time frame than our Buy rated issues, typically 2-3 years.

Neutral - We believe the stock is an average holding in its sector, is currently fully valued, and may be used as a source of funds if better opportunities arise.

Underperform - We believe the stock is vulnerable to a price setback in the next 12 months.



Rating	Hilliard Lyons Recommended Issues		Investment Banking Provided in Past 12 Mo.	
	# of Stocks Covered	% of Stocks Covered	Banking	No Banking
Buy	36	29%	14%	86%
Hold/Neutral	79	63%	5%	95%
Sell	10	8%	0%	100%

As of 7 July 2017

Other Disclosures

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